

# Prairie Oil Royalties

COMPANY, LTD.

*File*

ANNUAL REPORT

**1973**

### Directors:

Donald D. Barkwell	Calgary, Alberta
Stewart R. Dyckman	Calgary, Alberta
Edward A. Galvin	Calgary, Alberta
Wilfrid A. Loucks	Calgary, Alberta
Frederick A. McKinnon	Calgary, Alberta
Clifford A. Rae	Calgary, Alberta
David M. Tyerman, Q.C.	Regina, Sask.

### Officers:

Donald D. Barkwell	<i>President</i>
Stewart R. Dyckman	<i>Vice-President</i>
David M. Tyerman, Q.C.	<i>Secretary</i>
A. Kenneth Davies	<i>Treasurer</i>
Laurence A. Sills	<i>Assistant Secretary</i>

### Head Office:

640 Eighth Avenue S.W., Calgary, Alberta T2P 1G9

### Registered Office:

2236 Albert Street, Regina, Saskatchewan S4P 2V4

### Auditors:

Riddell, Stead & Co., Calgary, Alberta

### Registrars & Transfer Agents:

Canada Permanent Trust Company,  
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,  
New York, N.Y.

### Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario  
American Stock Exchange, New York, N.Y.

THE ANNUAL GENERAL MEETING of the Company will be held on Tuesday, April 30, 1974 at 9:30 o'clock in the forenoon, Mountain Daylight Time, in the Board Room of Canadian Industrial Gas & Oil Ltd., 12th Floor, 640 - 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G9.

# PRAIRIE OIL ROYALTIES COMPANY, LTD.

## Directors' Report

TO: THE SHAREHOLDERS

### FINANCIAL

#### Net Earnings

Net earnings for the year ended December 31, 1973, were \$718,000, an increase of 33% over the previous year, or 37¢ per share, compared to 27¢.

#### Cash Flow

Cash flow was \$1,065,000, or 54¢ per share, compared to \$841,000, or 43¢ per share. In 1973, \$531,000 of the cash generated from operations was expended on exploration and development.

### PRODUCTION

Net oil production for the year was 755 barrels per day compared to 778 barrels per day in 1972. Three separate increases in the price of crude oil were received during the year, 20¢ on January 10, 25¢ on May 10 and 40¢ on August 1, totalling 85¢ per barrel. Gross revenues as a result were up by \$130,083.

Net natural gas production increased to 6,134 Mcf per day from 5,021 Mcf per day in 1972, primarily as a result of increased output at the Big Bend and Acadia fields. Gross revenues from gas for the year were \$63,077 higher than in 1972.

### EXPLORATION

#### Drilling

During the year the Company participated in the drilling of 19 gross (4.99 net) wells which resulted in 8 gas (1.66 net) wells, compared to 18 gross (3.57 net) wells for 1972. The following is a summary of wells drilled:

		Gas		D. & A		1973 Total		1972 Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net
ALBERTA	Exploratory .....	5	.91	8	1.53	13	2.44	11	2.29
	Development .....	3	.75	2	.80	5	1.55	1	.06
SASKATCHEWAN	Exploratory .....	—	—	—	—	—	—	1	.10
BRITISH COLUMBIA	Exploratory .....	—	—	1	1.00	1	1.00	—	—
	Development .....	—	—	—	—	—	—	1	1.00
*ARCTIC	Exploratory .....	—	—	—	—	—	—	4	.12
		8	1.66	11	3.33	19	4.99	18	3.57

\*Does not include Hecla I-69 gas well which was drilled on 1.575% interest lands at no cost to the Company.



### Directors:

Donald D. Barkwell	Calgary, Alberta
Stewart R. Dyckman	Calgary, Alberta
Edward A. Galvin	Calgary, Alberta
Wilfrid A. Loucks	Calgary, Alberta
Frederick A. McKinnon	Calgary, Alberta
Clifford A. Rae	Calgary, Alberta
David M. Tyerman, Q.C.	Regina, Sask.

### Officers:

Donald D. Barkwell	<i>President</i>
Stewart R. Dyckman	<i>Vice-President</i>
David M. Tyerman, Q.C.	<i>Secretary</i>
A. Kenneth Davies	<i>Treasurer</i>
Laurence A. Sills	<i>Assistant Secretary</i>

### Head Office:

640 Eighth Avenue S.W., Calgary, Alberta T2P 1G9

### Registered Office:

2236 Albert Street, Regina, Saskatchewan S4P 2V4

### Auditors:

Riddell, Stead & Co., Calgary, Alberta

### Registrars & Transfer Agents:

Canada Permanent Trust Company,  
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,  
New York, N.Y.

### Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario  
American Stock Exchange, New York, N.Y.

THE ANNUAL GENERAL MEETING of the Company will be held on Tuesday, April 30, 1974 at 9:30 o'clock in the forenoon, Mountain Daylight Time, in the Board Room of Canadian Industrial Gas & Oil Ltd., 12th Floor, 640 - 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G9.

# PRAIRIE OIL ROYALTIES COMPANY, LTD.

## Directors' Report

TO: THE SHAREHOLDERS

### FINANCIAL

#### Net Earnings

Net earnings for the year ended December 31, 1973, were \$718,000, an increase of 33% over the previous year, or 37¢ per share, compared to 27¢.

#### Cash Flow

Cash flow was \$1,065,000, or 54¢ per share, compared to \$841,000, or 43¢ per share. In 1973, \$531,000 of the cash generated from operations was expended on exploration and development.

### PRODUCTION

Net oil production for the year was 755 barrels per day compared to 778 barrels per day in 1972. Three separate increases in the price of crude oil were received during the year, 20¢ on January 10, 25¢ on May 10 and 40¢ on August 1, totalling 85¢ per barrel. Gross revenues as a result were up by \$130,083.

Net natural gas production increased to 6,134 Mcf per day from 5,021 Mcf per day in 1972, primarily as a result of increased output at the Big Bend and Acadia fields. Gross revenues from gas for the year were \$63,077 higher than in 1972.

### EXPLORATION

#### Drilling

During the year the Company participated in the drilling of 19 gross (4.99 net) wells which resulted in 8 gas (1.66 net) wells, compared to 18 gross (3.57 net) wells for 1972. The following is a summary of wells drilled:

		Gas		D. & A.		1973 Total		1972 Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net
ALBERTA	Exploratory .....	5	.91	8	1.53	13	2.44	11	2.29
	Development .....	3	.75	2	.80	5	1.55	1	.06
SASKATCHEWAN	Exploratory .....	—	—	—	—	—	—	1	.10
BRITISH COLUMBIA	Exploratory .....	—	—	1	1.00	1	1.00	—	—
	Development .....	—	—	—	—	—	—	1	1.00
*ARCTIC	Exploratory .....	—	—	—	—	—	—	4	.12
		<u>8</u>	<u>1.66</u>	<u>11</u>	<u>3.33</u>	<u>19</u>	<u>4.99</u>	<u>18</u>	<u>3.57</u>

\*Does not include Hecla I-69 gas well which was drilled on 1.575% interest lands at no cost to the Company.



## Verger, Alberta

In the Verger area of Southeastern Alberta, the Company owns varying interests averaging 25% in 20,000 acres of petroleum and natural gas rights. Five shallow tests were completed as gas wells on these lands during the year and consideration is now being given to a multi-well program to develop the gas reserves in the area.

## Arctic Islands (See map on page 4)

The Company owns a 3.15% working interest in 613,617 gross acres on the north end of the Sabine Peninsula. To date two gas discoveries have been made on these lands, Drake Point and Hecla. Early in 1973 a follow-up to the Hecla gas discovery was

drilled just south of the acreage holding on a block in which the Company holds a 1.575% working interest. The operator, Panarctic Oils Ltd., reported that gas was encountered and confirmed the presence of a major gas accumulation in this area. An exploratory test located 2,000 feet from the Drake Point gas discovery is being drilled to evaluate the deep zones below the Drake Point gas accumulation. The well has reached total depth of 17,741 feet and is currently testing zones of interest. The Company has committed to participate in and pay its 3.15% share of the cost of a 12,000-foot exploratory test at the north end of the Sabine Peninsula, which will spud early in the spring of 1974.

## PETROLEUM AND NATURAL GAS RIGHTS (Acres)

At December 31, 1973, the Company owned interests in 3,567,303 gross (391,821 net) acres compared to 3,410,615 gross (387,942 net) acres at the end of the preceding year, details of which are as follows:

	Leases		Reservations, Permits & Licences		Total		Net Carried Interests		Gross Royalty Interests
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Arctic .....	102,493	3,229	2,101,350	88,255	2,203,843	91,484	—	—	—
Banks Island .....	—	—	402,593	12,680	402,593	12,680	—	—	—
Northwest Territories ...	—	—	—	—	—	—	—	—	18,021
Manitoba .....	73,086	21,077	—	—	73,086	21,077	—	—	—
Saskatchewan .....	82,330	52,237	46,880	9,376	129,210	61,613	—	—	326,672
Alberta .....	346,365	101,295	410,300	102,122	756,665	203,417	1,920	480	15,349
British Columbia .....	1,906	1,550	—	—	1,906	1,550	—	—	—
TOTAL .....	606,180	179,388	2,961,123	212,433	3,567,303	391,821	1,920	480	360,042

The land holdings of British Columbia Oil Lands, Ltd. (35% owned) at December 31, 1973 showed an increase over the previous year to 2,632,260 gross (107,709 net) acres from 2,183,690 gross (102,759 net) acres, details of which are as follows:

	Leases		Reservations, Permits & Licences		Total		Net Carried Interests	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Arctic .....	102,493	3,229	2,101,350	88,255	2,203,843	91,484	—	—
Banks Island .....	—	—	402,593	12,680	402,593	12,680	—	—
Alberta .....	5,440	488	—	—	5,440	488	—	—
British Columbia .....	20,384	3,057	—	—	20,384	3,057	151,703	30,570
TOTAL .....	128,317	6,774	2,503,943	100,935	2,632,260	107,709	151,703	30,570

## SASKATCHEWAN GOVERNMENT BILL 42

---

In December 1973 the Saskatchewan Government passed "The Oil and Gas Conservation Stabilization and Development Act 1973". The intent of this Act appears to be:

- (1) to freeze the price paid to the producer for oil in Saskatchewan and to force up the price paid by the purchasers and to take the difference as a tax;
- (2) to expropriate all producing oil and gas titles from owners who hold in excess of 1.280 acres; and
- (3) to increase the tax on non-producing titles from 20¢ to 50¢ per acre.

All of the Company's producing mineral titles and leases in Saskatchewan would be affected by this Act. The impact on the Company's financial position cannot, at this time, be accurately assessed. In February 1974, the parent company, Canadian Industrial Gas & Oil Ltd., commenced an action in the Courts to challenge the validity of certain provisions of this Act and contends that it is beyond the competence of the Saskatchewan Legislature in that it constitutes an indirect tax and an invasion of the Federal power to regulate trade and commerce.


## RESIGNATION AND APPOINTMENT OF DIRECTORS

---

On January 1, 1974, the President, Mr. E. G. Battle, was appointed President and Chief Operating Officer of Northern and Central Gas Corporation Limited and has, therefore, resigned as a Director and the President of the Company, effective March 7, 1974. Your Directors wish to record their sincere appreciation for his past services as a Director and Officer.

Mr. W. A. Loucks was appointed a Director to fill the vacancy on the Board and Mr. D. D. Barkwell has been appointed President of the Company.

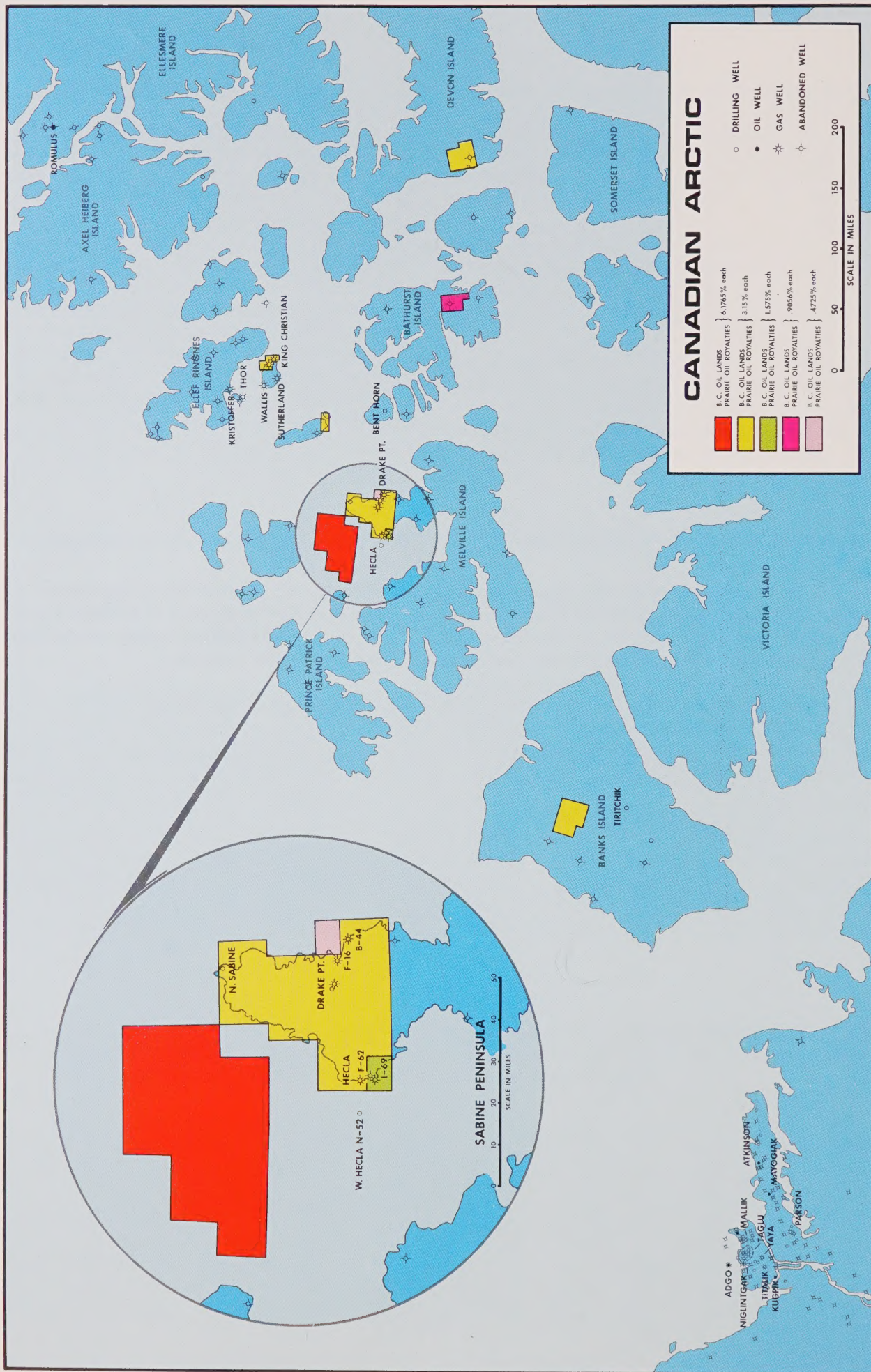
On behalf of the Board



President.

Calgary, Alberta.  
April 8, 1974.







**PRAIRIE OIL ROYALTIES COMPANY, LTD.**  
AND SUBSIDIARY COMPANY

**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS**

for the year ended December 31, 1973

	<u>1973</u>	<u>1972</u>
REVENUE		
Oil and gas sales .....	\$ 522,000	\$ 428,000
Royalties .....	654,000	552,000
Interest .....	84,000	52,000
	<u>1,260,000</u>	<u>1,032,000</u>
EXPENSES		
Production .....	144,000	142,000
General and administrative .....	51,000	49,000
Depletion .....	284,000	246,000
Depreciation .....	63,000	57,000
	<u>542,000</u>	<u>494,000</u>
NET EARNINGS (Note 4) .....	718,000	538,000
Retained earnings at beginning of year .....	5,075,000	4,537,000
RETAINED EARNINGS AT END OF YEAR .....	<u>\$5,793,000</u>	<u>\$5,075,000</u>
NET EARNINGS PER SHARE (Note 4) .....	<u>37¢</u>	<u>27¢</u>

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

for the year ended December 31, 1973

	<u>1973</u>	<u>1972</u>
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings .....	\$ 718,000	\$538,000
Charges not requiring working capital .....	347,000	303,000
Working capital generated from operations .....	1,065,000	\$841,000
APPLICATION OF WORKING CAPITAL		
Property, plant and equipment .....	531,000	731,000
INCREASE IN WORKING CAPITAL .....	<u>\$ 534,000</u>	<u>\$110,000</u>

## CONSOLIDATED BALANCE SHEET

as at December 31, 1973

### Assets

	<u>1973</u>	<u>1972</u>
CURRENT ASSETS		
Cash and short-term deposits .....	\$1,751,000	\$1,021,000
Accounts receivable .....	202,000	381,000
Drilling and other deposits .....	52,000	45,000
	<u>2,005,000</u>	<u>1,447,000</u>
INVESTMENT IN BRITISH COLUMBIA		
OIL LANDS LTD., at cost (Note 2) .....	<u>2,009,000</u>	<u>2,009,000</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
(Notes 1 and 3) .....	6,585,000	6,054,000
Accumulated depletion and depreciation .....	2,085,000	1,738,000
	<u>4,500,000</u>	<u>4,316,000</u>
	<u>\$8,514,000</u>	<u>\$7,772,000</u>



## Liabilities

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES		
Accounts payable .....	<u>\$ 185,000</u>	<u>\$ 161,000</u>

## Shareholders' Equity

CAPITAL STOCK		
Authorized		
2,500,000 shares of \$1 par value		
Issued		
1,961,520 shares .....	1,962,000	1,962,000
CONTRIBUTED SURPLUS .....	574,000	574,000
RETAINED EARNINGS (Note 4) .....	<u>5,793,000</u>	<u>5,075,000</u>
	<u>8,329,000</u>	<u>7,611,000</u>

Signed on behalf of the Board:

D. D. BARKWELL, Director

S. R. DYCKMAN, Director

<u>\$8,514,000</u>	<u>\$7,772,000</u>
--------------------	--------------------

## NOTES TO 1973 CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 Accounting Policies

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Prairie Oil Exploration Ltd., which was inactive during the current year.

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves.

Depreciation of plant and equipment is being provided at rates which will amortize the original costs over the estimated useful lives of the respective assets.

### Note 2 Investment

The investment in British Columbia Oil Lands Ltd. consists of 333,531 shares representing approximately 35% of that company's outstanding capital stock, with an approximate market value of \$1.2 million. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that could be realized on sale.

### Note 3 Property, Plant and Equipment

	1973			1972
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties .....	\$5,955,000	\$1,649,000	\$4,306,000	\$4,019,000
Oil and gas production equipment .....	630,000	436,000	194,000	297,000
	<u>\$6,585,000</u>	<u>\$2,085,000</u>	<u>\$4,500,000</u>	<u>\$4,316,000</u>

### Note 4 Income Taxes

For income tax purposes the Company has claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes are payable in respect of the earnings reported for the current year and as at December 31, 1973 expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income in the amount of \$469,000.

The Company's basis of accounting for income taxes differs from the deferred tax basis under which income tax provisions are based on the earnings reported in the accounts. If the deferred tax basis had been followed, deferred income taxes of approximately \$286,000 would have been provided for the year ended December 31, 1973 (1972 - \$198,000) and the earnings for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current year and prior periods amount to approximately \$1.4 million at December 31, 1973.

While the Company's tax accounting method is consistent with the prevailing practice in the oil and gas industry, the Securities Commissions in Canada have questioned the use of the flow-through method and studies are currently underway in this regard. In the event that these studies do not, in the opinion of the Securities Commissions, justify the use of the flow-through method, the Commissions have stated that companies in the oil and gas industry should be prepared to adopt the deferred tax basis of accounting commencing in 1974.

### Note 5 Directors' Fees

General and administrative expenses include directors' fees of \$3,200.



## Auditors' Report

TO THE SHAREHOLDERS  
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the consolidated balance sheet of Prairie Oil Royalties Company, Ltd. and subsidiary company as at December 31, 1973 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
February 8, 1974.

RIDDELL, STEAD & CO.  
Chartered Accountants





AR37

*SLP* ✓ *ad  
Cover*  
PRAIRIE OIL ROYALTIES  
COMPANY, LTD.

INTERIM REPORT

for the  
six months ended  
June 30, 1973

640 Eighth Avenue S.W.  
Calgary, Alberta, Canada  
T2P 1G9

TO THE SHAREHOLDERS:

### Financial

For the six months ended June 30, 1973, revenue was \$590,794 compared to \$451,455 for the corresponding period of 1972. This resulted from improvement in gas sales and increased crude oil prices.

Cash flow increased 32% to \$486,029 or 25¢ per share while net earnings increased 34% to \$331,024 or 17¢ per share.

### Crude Oil Price Increases

The wellhead price for the Company's crude oil was increased by 10¢, 20¢ and 25¢ per barrel in November 1972 and in January and May 1973, respectively. Also, effective August 1, 1973, an additional increase of 40¢ per barrel was announced by most crude oil purchasers. At current production rates, these increases will add approximately \$250,000 to the Company's annual revenue.

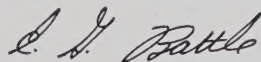
### Drilling

The Company participated in the drilling of 9 gross wells (2.10 net) which resulted in 3 gas wells (.69 net) and 6 dry holes (1.41 net).

### Arctic Islands

Panarctic Oils Ltd. as operator for a group, has spudded a deep test located 2,000 feet from the original Drake Point gas discovery. The projected 17,500 feet Devonian test is located on land in which the Company holds a 3.15% working interest. The test will not reach its prime objective until late in 1973.

On Behalf of the Board



President

Calgary, Alberta  
August 13, 1973.

## CONSOLIDATED STATEMENT OF EARNINGS FOR SIX MONTHS ENDED JUNE 30 (Unaudited)

	<u>1973</u>	<u>1972</u>
SALES AND OTHER REVENUE . . . . .	\$590,794	\$451,455
COSTS AND EXPENSES		
Field operating expenses . . . . .	78,670	57,492
General and administrative expenses . . . . .	26,095	26,741
Depletion . . . . .	123,323	92,368
Depreciation . . . . .	31,682	28,272
	<u>259,770</u>	<u>204,873</u>
NET EARNINGS . . . . .	<u>\$331,024</u>	<u>\$246,582</u>
EARNINGS PER SHARE		
Cash flow . . . . .	25¢	19¢
Net earnings . . . . .	17¢	13¢

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR SIX MONTHS ENDED JUNE 30 (Unaudited)

	<u>1973</u>	<u>1972</u>
FUNDS DERIVED FROM		
Operations		
Net earnings . . . . .	\$331,024	\$246,582
Charges not requiring funds . . . . .	155,005	120,640
Funds generated from operations . . . . .	<u>486,029</u>	<u>367,222</u>
FUNDS APPLIED TO		
Property, plant and equipment . . . . .	<u>197,317</u>	<u>384,224</u>
INCREASE (DECREASE) IN WORKING CAPITAL . . . . .	<u>\$288,712</u>	<u>\$(17,002)</u>